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ANNUAL REPORT

TO THE

STOCKHOLDERS

1941

THE

NATIONAL TOOL

COMPANY

Cleveland, Ohio

THE NATIONAL TOOL COMPANY

11200 Madison Avenue Cleveland, Ohio

Directors

A. J. Brandt
P. F. Zerkle
R. R. Todd
J. Victor Loewi
L. F. Jubenville
L. A. Schmidt
S. J. Kornhauser
J. S. Pearson

Officers

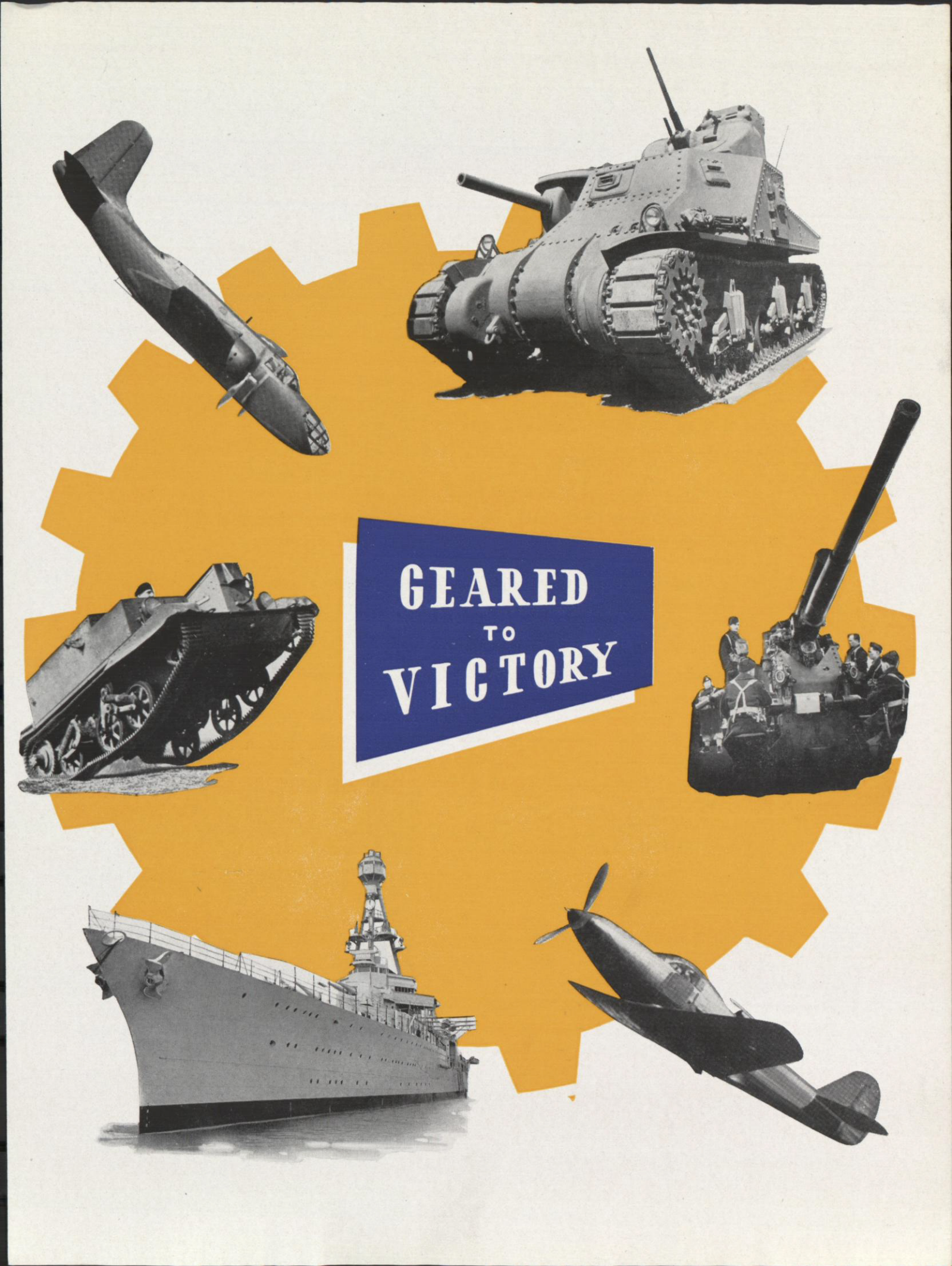
A. J. Brandt ..... *President*
L. F. Jubenville ..... ~~*Executive*~~ *Vice-Pres.*
L. A. Schmidt ..... *Vice-Pres.*
P. F. Zerkle ..... *Vice-Pres.*
L. M. Prosser ..... *Treasurer*
S. J. Kornhauser ..... *Secretary and General Counsel*
L. M. Shafer ..... *Asst. Sec. & Treas.*

Transfer Agent

The National Tool Co.
11200 Madison Ave. Cleveland, Ohio

REGISTRAR

Central National Bank
308 Euclid Ave., Cleveland, Ohio


GEARED
TO
VICTORY

TO THE STOCKHOLDERS

March 31, 1942.

To Stockholders:

Attached hereto is the balance sheet of your Company as of December 31, 1941, and income account for the past year, as certified by Messrs. Ernst & Ernst.

Shipments during the past year totalled $2,711,195.87, as compared with $1,186,061.67 in the previous year, an increase of 128%.

Net profits before taxes amounted to $475,708.45, compared to $107,620.26 in the previous year. After normal and excess profits taxes, net transferred to surplus amounted to $230,708.45 or $1.05 per share, compared with $82,620.00 or $0.40 a share reported for 1940.

It will be noted that the sum set aside for income and excess profits taxes in 1941 was $245,000.00, compared with $25,000.00 in 1940.

The upward revision in tax rates contained in the revenue act passed by Congress in September, 1941 made necessary a drastic increase in our tax reserves in the last half of the year.

During the past year your Company continued its program of plant improvement. Additions to equipment during 1941 totalled $133,661.09. New machinery was added to all departments and most departments were rearranged to provide for larger and more efficient production. We are happy to tell you that we believe your plant and facilities are in better condition today than at any time in the history of the Company.

During 1941 an increasingly larger proportion of your Company's production went into the armament program. At the present time 100% of our production is finding its way directly or indirectly into the war effort.

The Board of Directors has recently approved a plan for materially increasing production facilities to help carry the increased load of providing more cutting tools for defense. It is vitally necessary that more cutting tools be made available in order to permit expansion in other industries. The investment necessary to make our increased capacity available is being provided by the Defense Plant Corporation, and your Company has entered into a contract with the latter to lease the equipment, with an option to buy. Studies are now under way, looking to further expansion of our facilities, providing the necessary raw materials are available at the time our enlarged facilities would be complete. As most stockholders are aware, cutting tools which we manufacture are a prime

BALANCE SHEET

ASSETS

CURRENT ASSETS			
Cash		$ 98,362.49	
Trade accounts receivable	$251,584.68		
Less reserve	1,000.00	250,584.68	
Inventories—at the lower of approximate cost or market — Note A:			
Finished products	$ 25,662.38		
Work in process	186,378.91		
Raw materials	118,723.22		
Manufacturing supplies	27,152.33		
	$357,916.84		
Less reserve	20,000.00	337,916.84	$ 686,864.01
INVESTMENTS AND OTHER ASSETS			
Cash surrender value of life insurance		$ 5,947.55	
Account receivable from officer for stock purchased		4,000.00	
Mutual insurance and other deposits		3,224.74	
Employees and miscellaneous accounts receivable		2,712.82	
Sundry securities — at nominal amounts		3.00	15,888.11
PROPERTY, PLANT AND EQUIPMENT — at cost, less reserves for depreciation and amortization:			
Land		$ 39,103.98	
Buildings, machinery, and equipment	$416,021.28		
Less reserves for depreciation	216,003.74	200,017.54	
		$239,121.52	
Emergency facilities:			
Machinery and equipment	$156,868.44		
Less reserve for amortization	14,540.12	142,328.32	
Appropriations in process		28,315.22	409,765.06
PATENTS—at cost, less amortization (includes the carrying amount of $1.00 for good-will, patents, etc., charged off in 1935)			7,223.27
DEFERRED CHARGES			
Deferred tool expense		$ 24,779.41	
Prepaid insurance, taxes, etc.		9,719.98	34,499.39
			$1,154,239.84

ERNST & ERNST

Certified Public Accountants

Board of Directors,
The National Tool Company,
Cleveland, Ohio.

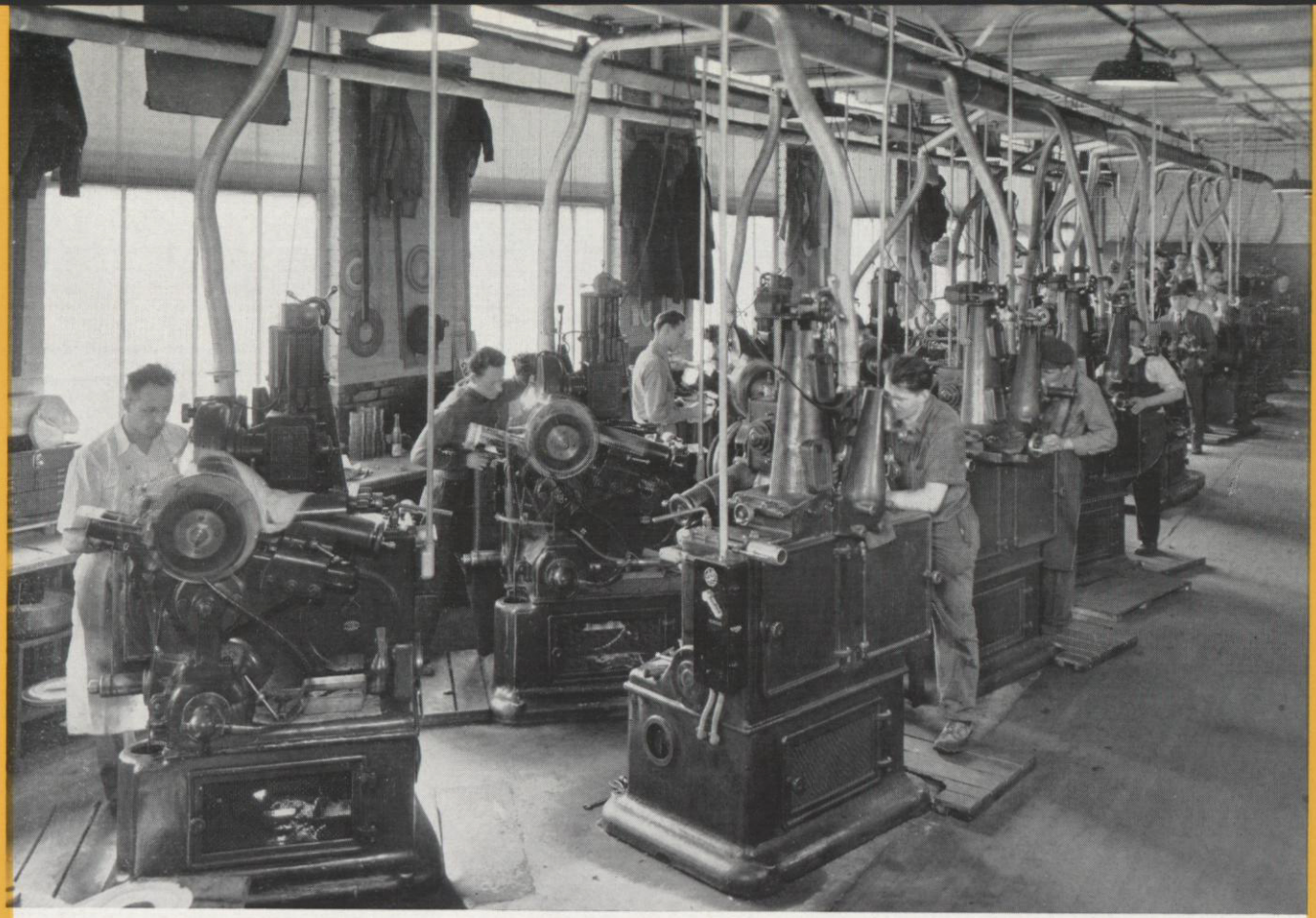
We have examined the balance sheet of The National Tool Company as of December 31, 1941, and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary with inventories determined by procedures, described in Note A to the balance sheet and in the following paragraph, which we considered practicable under present production requirements for war purposes.

Trade receivables were tested by communication with debtors. The amounts stated for inventories were based upon book records of the Company, and except for test checks made from time to time as quantities were low, no physical inventories have been taken since December 31, 1940. We reviewed inventory records maintained by the Company and made tests of computations and pricing. Based upon our examination of inventory and other records, we have no reason to believe that the net amounts shown for inventories are unfairly stated.

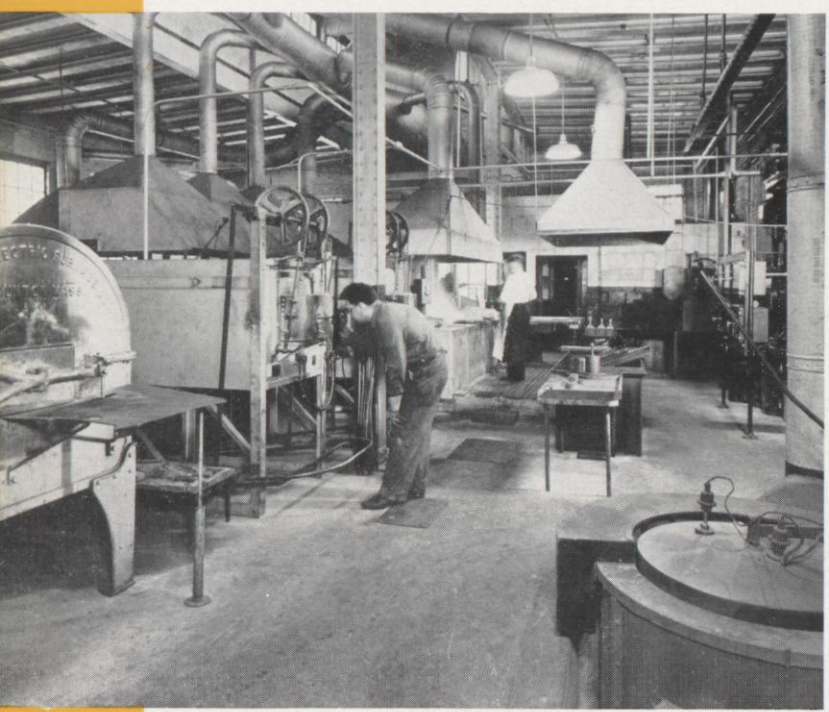
In our opinion, subject to the comments in the preceding paragraph, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of The National Tool Company at December 31, 1941, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants

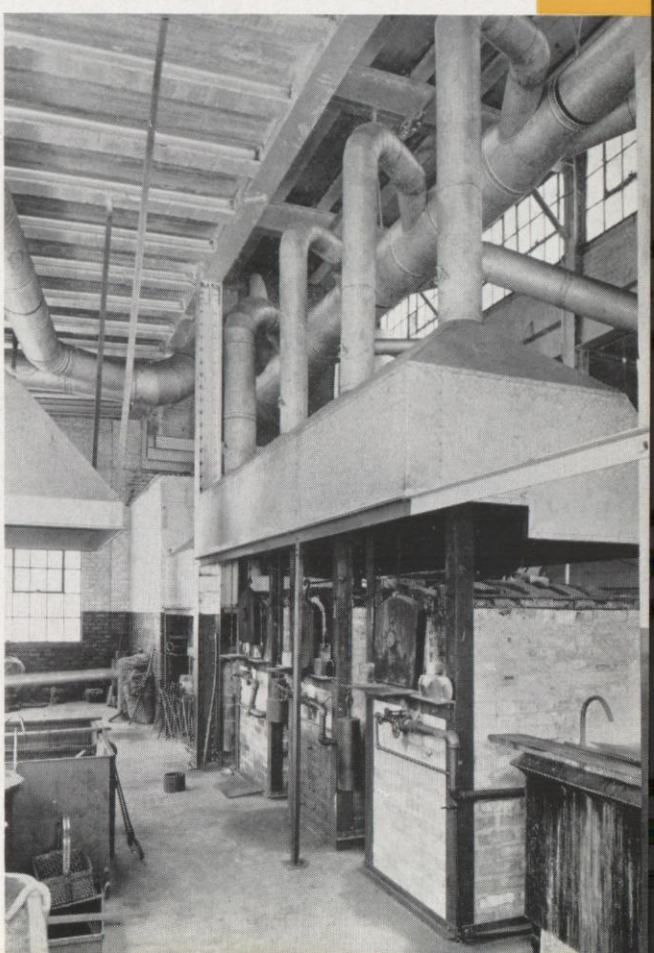
Cleveland, Ohio
March 17, 1942



A section of the Gear Shaper Cutter and Master Gear Finish Grinding Department.



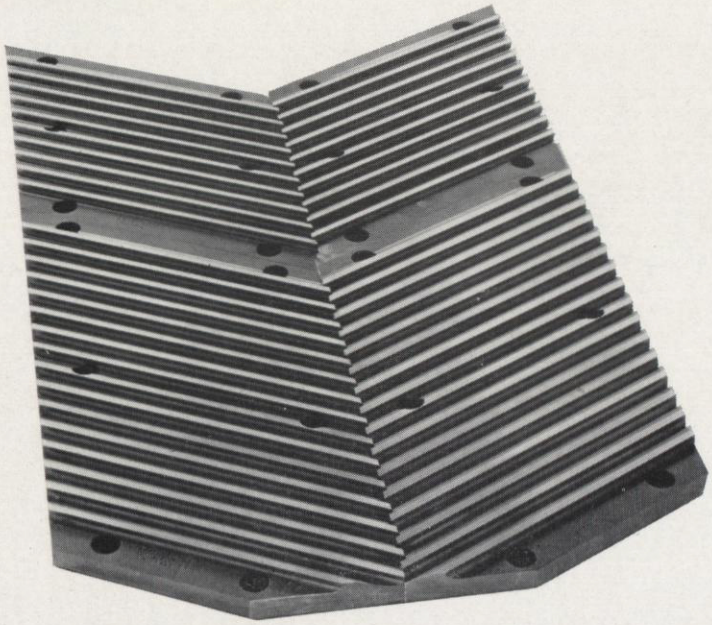
View of our heat treating department showing high heat hardening furnaces, gas and electrical controls.



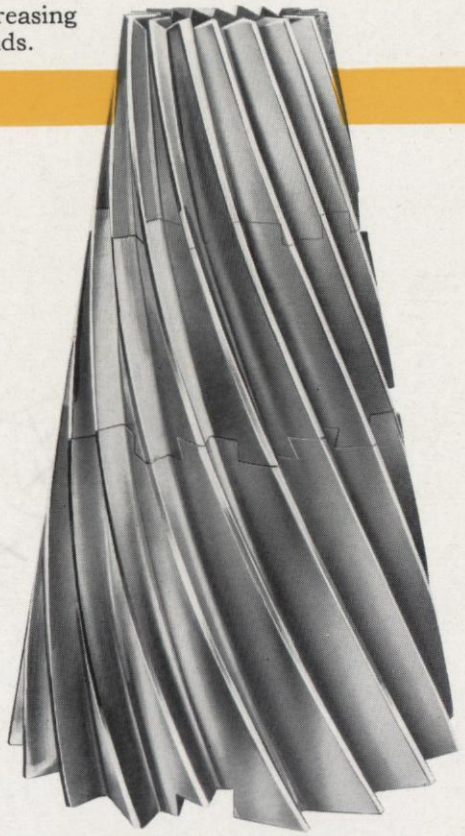
View showing section of our carburizing furnaces.

P R O D U C T I O N !

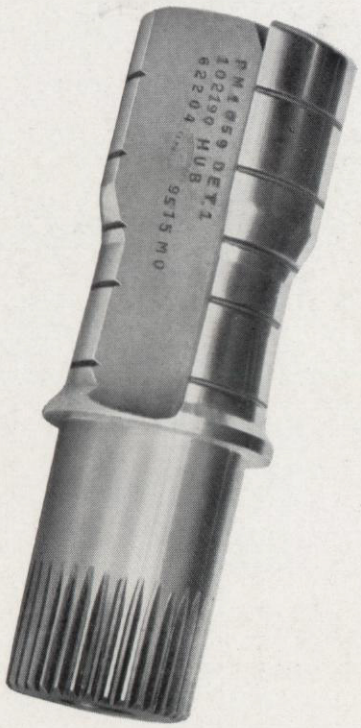
Today in our present War Emergency Metal Cutting Tools are one of the most vital requirements in the Production of Armaments.
National-Cleveland Tools are being produced in ever increasing amounts each month to keep pace with growing demands.



9½" x 17½" x 21½" long Sectional Surface Broach for Finish Surfacing Motor Blocks.



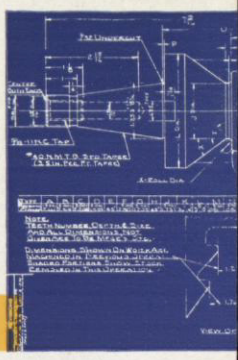
Special Sectional Taper Reamer for finishing Taper Bearings held to precision sizes.

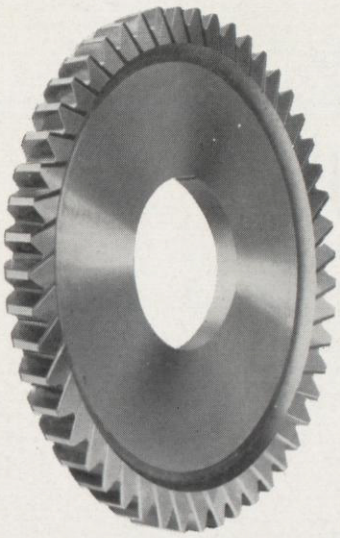


Button Cutters for Roughing and Finishing Inside Contour of Aircraft Propeller Hubs.

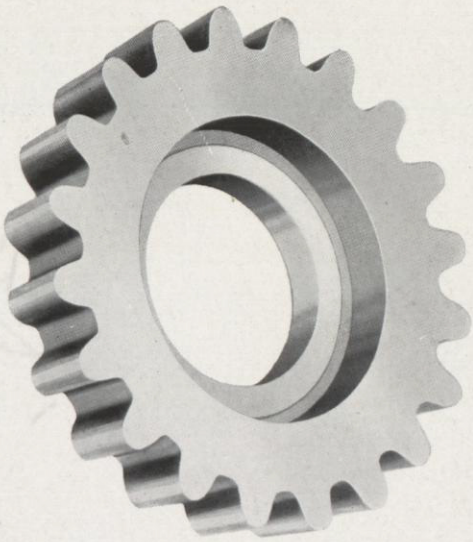
D E S I G N E D F O R

Not enough has been written, or probably ever will be, about the quality, precision, or performance of National-Cleveland Tools. We prefer to let the tools talk for themselves, confident that the reputation they have earned over the past forty years will continue to merit their use in the future.

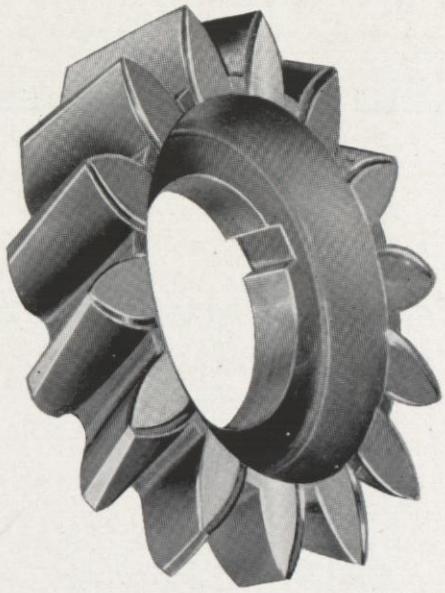




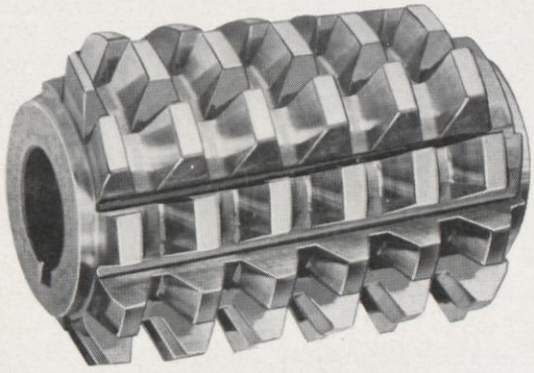
12″ Diameter Gear Shaper Cutter for cutting teeth in Worm Sectors.



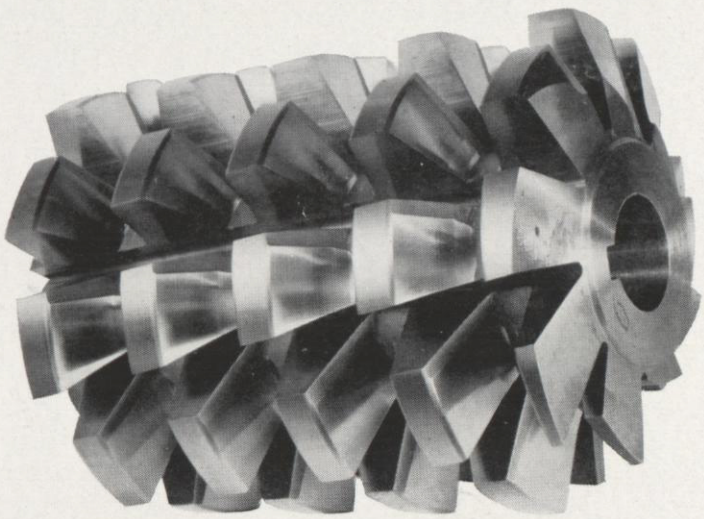
Spur Gear Shaper Cutter.

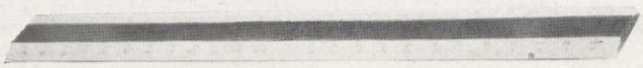


Herringbone Cutter.

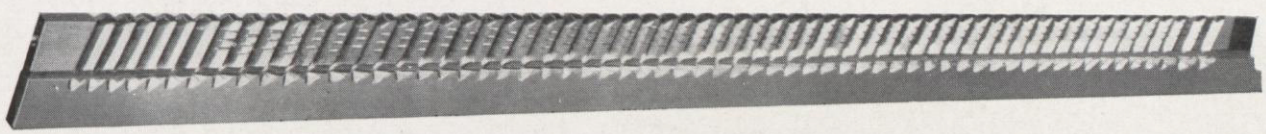


Worm Gear Hob for cutting teeth on Worm Wheels.





10″ diameter x 14″ long Ground Form Worm Gear Hob.



Wrench Broach for Roughing and Finishing of Open End Wrenches held to accurate sizing both of contour and profile.

A section of Surface Grinding Department.

FOR DEMOCRACY

A section showing a battery of External Grinders.

View showing National-Cleveland Model C Involute Checking Machine used for testing Gear Tooth Profile and Intertooth Spacing. Tolerances held to .0005 accuracy.

A section showing a battery of Milling Machines.

PRODUCING TOOLS

A section of Hob and Cutter Form Relieving Department.

necessity in the manufacture of airplanes, tanks, guns and all other essential war material made of metal. The great quantities of machine tools now being made are of no value without cutting tools.

In the mid-year report attention was called to the fact that the $179,000 of 6% Convertible Debentures which were outstanding at the end of last year were called as of May 21 last. Part of the funds was provided by a $150,000 3½% mortgage loan. At the end of the year this loan had been reduced to $120,833.31 and at the present writing it has been further reduced to $102,333.31.

Although the full energies of your management and personnel are being devoted to the all-out program for victory, your Board is also mindful that it must be far-sighted enough to develop products and modern facilities in order to resume its place in peace-time production after the war. In this connection research and development work is being pursued and it is to be anticipated that new products for manufacture, as well as new methods, will be available after the emergency is over. The facilities of our machine shop have been applied to making machine tools for our government and allied governments.

In 1941 the Company paid its first dividends since the reorganization, with the disbursement of 10c per share in September and 15c per share in December. It is the hope of the Board of Directors that dividends at the rate of 10c quarterly can be paid during the current year.

Under the stress of high production, which often requires much overtime, difficulty in procurement of material and all other items which are apt to cause tension in an organization working under pressure, we have maintained employee relationship on a very satisfactory basis. We wish to commend and thank all employees for their loyalty and willingness to cooperate in doing the best possible under present difficult operating conditions.

By the Order of the Board of Directors,

Respectfully,

A. J. BRANDT,

President

NATIONAL Tools CLEVELAND

THE NATIONAL TOOL COMPANY
December 31, 1941

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES			
Accounts payable:			
Trade accounts	$ 71,811.87		
Wages and commissions	89,346.00		
Payroll taxes	16,288.75	$177,446.62	
Accrued federal capital stock and other taxes, etc.		13,061.47	
Federal taxes on income — estimated		245,450.67	
First mortgage note — portion due during 1942		50,000.00	$ 485,958.76
FIRST MORTGAGE NOTE PAYABLE — Note B			
Secured by mortgage on all property, plant, and equipment and life insurance on officer		$120,833.31	
Less portion classified as current liability		50,000.00	70,833.31
CAPITAL STOCK AND SURPLUS			
Capital Stock — Note C:			
Common stock, par value $1.00 a share:			
Authorized 600,000 shares:			
Outstanding 219,244 shares	$219,244.00		
Reserved for exchange of preferred and common shares of predecessor company 416 shares	416.00	$219,660.00	
219,660 shares			
Surplus:			
Capital surplus	$119,265.96		
Earned surplus — since January 1, 1940	258,521.81	377,787.77	597,447.77
			$1,154,239.84

See notes on following page.

★ ★ ★ NATIONAL Tools CLEVELAND ★ ★ ★

NOTES TO BALANCE SHEET

THE NATIONAL TOOL COMPANY

December 31, 1941

Note A — Inventory quantities of finished products and raw materials and supplies were determined from continuous book records which are tested periodically with quantities on hand. Work in process has been compiled from cost records, no physical inventories having been taken at December 31, 1941. The inventories are priced generally at standard costs which have been reduced to estimated actual cost through the provision of a reserve. It is believed that adequate inventory records and control are maintained and that inventories are fairly stated.

Note B — This note is payable in consecutive monthly installments of $4,166.67 each, the last of which becomes due on May 15, 1944. In addition to the monthly payments, the payee has the right to request, on or before April 1st of each year, the payment by the Company of 50% of its net earnings in excess of $50,000.00 for the preceding fiscal year. The payee has waived its right to the additional payment on earnings for the year 1941.

Note C — In connection with the underwriting of 41,000 shares of the capital stock of the Company during the year 1939, the Company has granted to the underwriter an option to purchase all or any part of 10,000 shares of authorized but unissued common stock of the Company, at a price of $2.50 per share, at any time or from time to time during period of three years from January 2, 1940, and at a price of $3.00 per share at any time or from time to time during a period of three years from January 2, 1943.

Note D — The Company has been named defendant in certain law suits involving the use of certain patents. It is the opinion of counsel for the Company that no material liability exists with respect to this litigation.

SURPLUS ACCOUNTS

THE NATIONAL TOOL COMPANY

Year ended December 31, 1941

CAPITAL SURPLUS

Balance at January 1, 1941		$102,990.96
Add:		
Credit resulting from conversion of $22,000.00 principal amount of convertible 6% sinking fund debentures to common stock — basis $2.50 per share	$ 13,200.00	
Excess of selling price over par value of:		
3,000 shares of common stock sold under contract made in prior year to officer at $2.00 a share	3,000.00	
50 shares of common stock sold to employee at $2.50 a share	75.00	16,275.00
BALANCE AT DECEMBER 31, 1941		$119,265.96

EARNED SURPLUS (SINCE JANUARY 1, 1940)

Balance at January 1, 1941	$ 82,620.26
Net profit for the year	230,708.45
	$313,328.71
Less cash dividends paid — $ .25 a share	54,806.90
BALANCE AT DECEMBER 31, 1941	$258,521.81

PROFIT AND LOSS STATEMENT

THE NATIONAL TOOL COMPANY

Year ended December 31, 1941

Gross sales, less returns and allowances		$2,711,195.87
Cost of products sold		1,893,620.03
GROSS PROFIT		$ 817,575.84
Selling, administrative, and general expenses		298,429.54
OPERATING PROFIT		$ 519,146.30
Other deductions:		
Receivables, inventories, development expenses, etc., in connection with rock bit business — charged off	$ 27,949.26	
Interest on long-term debt	7,073.90	
Amortization of bond discount and expense	4,850.69	
Premium and expense of retiring bonds	2,706.93	
Miscellaneous	857.07	43,437.85
PROFIT BEFORE TAXES ON INCOME		$ 475,708.45
Taxes on income:		
Provision for the year — estimated:		
Federal normal income tax and surtax	$105,000.00	
Federal excess profits tax	140,000.00	245,000.00
NET PROFIT		$ 230,708.45

Note — Provisions for depreciation and amortization for the year amounted to $37,656.11.

THE NATIONAL TOOL COMPANY

GEARED TO VICTORY